MULTIMEDIA UNIVERSITY

STUDENT ID NO

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# MULTIMEDIA UNIVERSITY

# FINAL EXAMINATION

**TRIMESTER 2, 2019/2020**

## BFN2044 – BANK MANAGEMENT

( All sections / Groups )

28 FEBRUARY 2020
9.00 a.m – 11.00 a.m
( 2 Hours )

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**INSTRUCTIONS TO STUDENTS**

1. This question paper consists of 3 pages with 4 questions only.

2. Attempt ALL FOUR questions. All questions carry equal marks and the distribution of the marks for each question is given.

3. Please write all your answer in the Answer Booklet provided.

## Question 1 (25 marks)

(a) What is return on equity capital, and what aspect of bank's performance is it supposed to measure?

(8 marks)

(b) Suppose Broncos Bank reports that its net income for the current year is RM 62 million, its assets total RM 1.2 billion, and its liabilities amount to RM 920 million. What is its return on equity capital? Is the ROE you have calculated good or bad if Axxon Bank's ROE is 25%?

(7 marks)

(c) Briefly explain the following from the bank management's perspective:

(i). Off-Balance-Sheet Risk (2 marks)
(ii). Operational (Transactional) Risk (2 marks)
(iii). Legal and Compliance Risk (2 marks)
(iv). Reputation Risk (2 marks)
(v). Strategic Risk (2 marks)

## Question 2 (25 marks)

(a) As a bank manager, you are aware that the changes in interest rate will have an impact on the bank's net interest margin.

Recently you are given the following information:

| Assets | RM | Rate | Liabilities and Equity | RM | Rate |
|---|---|---|---|---|---|
| Rate sensitive | 4,000 | 10% | Rate sensitive | 2,000 | 8% |
| Nonrate sensitive | 500 | 9% | Nonrate sensitive | 2,000 | 7% |
| Nonearning | 500 | | Equity | 1,000 | |
| Total | 5,000 | | | 5,000 | |

Based on the above information, calculate:

(i) The expected Net Interest Income and Net Interest Margin at current interest rates and assuming no change in the composition of the portfolio.

(9 marks)

(ii) The new Expected Net Interest Income and Net Interest Margin if all interest rates rise by 1 percentage point. What can be concluded from the result?

(10 marks)

Continued...

(b) Suppose that a bank estimates its total deposits and loans over the next four weeks as the following:

| Week | Estimated Total Deposits RM million | Estimated Total Loans RM million |
|---|---|---|
| 1 | 112 | 87 |
| 2 | 132 | 95 |
| 3 | 121 | 102 |
| 4 | 147 | 113 |

Under the sources and uses of funds approach, calculate the bank's liquidity deficit or surplus for each week.

(6 marks)

**Question 3 (25 marks)**

(a) Mayfair National Bank has structured its RM 60 million investment portfolio, so that it holds about 30 percent in one-year securities and 70 percent in two-years securities. In contrast, Parklane National Bank holds RM30 million in one- and two-year securities and about RM30 million in 8- to 10-year maturities. What maturity strategy is each bank following and why they adopted such strategy? Please show the diagram for each strategy used by each bank.

(14 marks)

(b) CNB bond is currently sells for RM980 based on a par value of RM1,000 and promises RM100 in interest for three years before being retired. Yields to maturity on comparable-quality securities are currently at 12 percent.

(i) Calculate this bond's duration.

(8 marks)

(ii) What will be the approximate percent change in the bond's price if the market interest rates fall to 8 percent?

(3 marks)

**Question 4 (25 marks)**

(a) What are the factors that influence the growth and mix of loans held by a bank?

(8 marks)

Continued...

(b) As a credit department manager, how do you identify that a problem loan may be developing?

(8 marks)

(c) Suppose Baron bank estimates that the marginal cost of raising loanable funds to make a RM 20 million loan to one of its corporate customers is 3 percent, its non-funds operating costs to evaluate and offer this loan are 0.75 percent, the default-risk premium on the loan is 0.35 percent, a term-risk premium of 0.55 percent is to be added, and the desired profit margin is 0.25 percent. Using the cost-plus loan pricing model, what loan rate should be quoted to this borrower? How much interest will the borrower pay in a year?

(9 marks)

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